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## NATIONAL ENERGY BOARD REASONS FOR DECISION

In the Matter of the Submission for approval  
of the Budget for Certain Operating and  
Maintenance Expenses, Pursuant to Paragraph 14  
of Schedule 'A' of  
Order No. TG-5-79

of

**Westcoast Transmission Company Limited**

**May 1981**





NATIONAL ENERGY BOARD

REASONS FOR DECISION

In the Matter of a Submission for approval of  
the Budget for Certain Operating and Maintenance  
Expenses, Pursuant to Paragraph 14 of Schedule "A"  
of Order No. TG-5-79

of

WESTCOAST TRANSMISSION COMPANY LIMITED

May 1981

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(i)

IN THE MATTER OF the National Energy Board Act and the Regulations made thereunder; and

IN THE MATTER OF an application by Westcoast Transmission Company Limited (hereinafter called "Westcoast") for approval of certain operating and maintenance expenses, pursuant to paragraph 14 of Schedule "A" of Order No. TG-5-79; File No. 1562-W5-3.

HEARD at Ottawa, Ontario on 6, 7, 8, 9 and 10 April 1981.

BEFORE:

J.R. Hardie ) Presiding Member  
L.M. Thur ) Member  
J.L. Trudel ) Member

APPEARANCES:

R.J. Gibbs, Q.C. ) Westcoast Transmission  
C. Donohue ) Company Limited  
J.W. Lutes )  
  
J.M. Pelrine, ) British Columbia Petroleum  
 ) Corporation  
  
A.R. O'Brien, ) British Columbia Hydro  
 ) and Power Authority  
  
J.B. Ballem, Q.C. ) Canadian Petroleum  
 ) Association  
  
W. Fruehauf ) Consumers Glass Company  
 ) Limited  
 ) Domglas Inc.  
  
J.W.S. McOuat, ) TransCanada PipeLines  
 ) Limited  
  
P.G. Griffin ) National Energy Board

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CHAPTER 1BACKGROUND

Since 1 November 1979, Westcoast Transmission Company Limited ("Westcoast" or "the Applicant") has been charging for the transmission of natural gas through its pipeline the tolls prescribed by the Board pursuant to Order No. TG-5-79, dated 20 September 1979, issued following a public hearing held in 1978 and 1979. The tolls prescribed by that Order are of the variable cost of service type, calculated on the basis of a monthly cost of service determined in accordance with the Order.

One component of the monthly cost of service is Operating and Maintenance Expenses. Under Order No. TG-5-79, Westcoast may include in its monthly cost of service its actual Operating and Maintenance Expenses for salaries, wages and employee benefits, and for other expenses up to the annual budgets for those items as previously approved by the Board. Any Operating and Maintenance Expenses incurred by Westcoast in excess of the budget amounts approved for any year, are required under the provisions of the Order to be deferred by the Applicant for subsequent disposition by the Board.

By a submission dated 14 October 1980, Westcoast filed with the Board its Operating and Maintenance Expense Budget for the twelve months ending 31 December 1981. The Applicant subsequently filed a revised submission dated 5 February 1981.

In its revised submission, Westcoast requested the Board to approve Operating and Maintenance Expense budgets of \$25.839 million for salaries, wages and benefits and \$31.948 million for other expenses, including contingent items of \$2.663 million for the twelve months ending 31 December 1981.

By Order No. RH-1-81, as amended, the Board set down the Operating and Maintenance Expense submission for a public hearing commencing on 6 April 1981. Order No. RH-1-81, as amended, is set out as Appendix I to these Reasons. The Board further directed in the Order that it wished to examine in the hearing two aspects of the scheme established by Order No. TG-5-79 to regulate the tolls charged by Westcoast. Those aspects of the scheme of regulation to be examined were

1. the approval of Operating and Maintenance Expenses, and
2. the addition of new items of plant in the calculation of the average monthly Rate Base.

By a memorandum dated 28 January 1981, the Board requested the parties to the proceedings to consider a number of subsidiary issues relating to the control of Operating and Maintenance Expenses and of additions to the Rate Base. The Board's memorandum is set out as Appendix II to these Reasons.

CHAPTER 2OPERATING AND MAINTENANCE EXPENSES(a) Salaries, Wages and Benefits

Westcoast's Operating and Maintenance Expense budget for the twelve months ending 31 December, 1981 included the amount of \$25.839 million for salaries, wages and benefits. Westcoast applied a general increase of 13.5 per cent effective January-February 1981 to obtain its estimate of wages and salaries for the budget year. The increase was based upon comparable settlements made within the oil and gas industry. The Applicant also provided a summary of a salary survey which demonstrated that the salaries of Westcoast employees tracked the 50th percentile of community and industry surveyed rates.

Westcoast included in its estimate of salaries an amount of \$60,570 for merit increases. The figure was derived by applying a factor of three per cent to the salaries of employees who qualify for merit increases. This resulted in an amount of \$121,140 which, given that merit increases are awarded over the course of the year, would increase the budget by one-half this amount.

With regard to promotions, Westcoast agreed that the advancement of an employee to a higher position would not necessarily result in an increase in total payroll due to turnover of staff. Westcoast stated that, for this reason, it had not included a provision for promotions in its budget.

Westcoast reported that its northern allowance component of salaries and wages would be \$455,000 higher in 1981 than originally anticipated. This increase was due to higher northern allowance rates that had recently been negotiated as part of union wage settlements. The new rates were said to be in line with those granted by other companies working in similar areas. The Applicant, however did not amend its budget to reflect this increase.

Westcoast projected an addition in average complement in 1981 of 97, of which 39 man-years were allocated to its 1981 O & M budget. The Applicant provided a breakdown by department of the responsibilities of the new employees and the reasons for the additional man-years, which are summarized as follows:

- (1) Northern District: 11 man-years; increased facilities and load factor require the addition of supervisory, maintenance and operating personnel. There is also a requirement to fill positions for a mechanical technician and a training engineer.
- (2) Southern District: 2 man-years; an increase in personnel is required for vacation relief and administrative assistance.
- (3) Fort Nelson Plant: 8 man-years; additional employees are required in order to attain increased technical analysis and field accountability.

- (4) Taylor Sulphur Plant: 2 man-years; increased production necessitates the addition of trades personnel.
- (5) Pine River Plant: 6 man-years; an increase in the number of employees is required for purposes of additional supervision and safety.
- (6) Warehouses: 4 man-years; additions to staff are required due to increased materials movement resulting from the growth of the utility system.
- (7) Vancouver Department: 6 man-years; Westcoast provided a detailed description of 64 new positions to be filled. It was stated that, of this increased complement, the equivalent of six man-years had been allocated to the O & M budget.

Within the course of its direct testimony, Westcoast reported that those employees who were involved in both utility and non-utility projects were responsible for providing an estimate of how much of their time would be allocated outside the utility operation. In turn, this portion of their salaries, wages and benefits is not included in the O & M budget but is included in non-utility cost centres. In determining the utility cost of service to be charged each month, actual salaries, wages and benefits are allocated by the use of daily time sheets for those employees entitled to be paid for overtime and by monthly reports for other employees.

During the hearing, it was indicated that the Operating and Maintenance Expense budget included amounts in respect of costs which the Company will recover from the Alberta Petroleum Marketing Commission as costs incurred within Alberta. The Applicant indicated in evidence that, through the allocation of its overall cost of service, the actual amount of its Alberta cost of service is excluded from the Operating and Maintenance Expenses applicable to its operations outside that Province. The budget submitted for salaries, wages and benefits includes an amount of \$157,000 attributable to the Alberta cost of service.

In the Board's view, because Alberta cost of service amounts are recovered separately from the Alberta Petroleum Marketing Commission, it would be preferable to exclude such amounts from the Operating and Maintenance Expense budget for operations outside Alberta. Accordingly, the Board has reduced the budget for salaries, wages and benefits by the \$157,000 of Alberta costs. Subject to that adjustment, the Board finds the Applicant's budget of \$25.682 million for salaries, wages and benefits applicable to operations outside Alberta and as distributed to the cost centres shown in Appendix III, to be reasonable. The Board has also concluded that there is no reason to change the existing method employed by Westcoast for the allocation of salaries, wages and benefits to non-utility cost centres.

(b) Other Operating and Maintenance Expenses and Contingencies

Westcoast's Operating and Maintenance Expense budget for the twelve months ending 31 December, 1981 included an amount of \$29.285 million for Other Expenses.

As was the case with salaries, wages and benefits, the Other Expenses include an amount of \$1.296 million attributable to the Alberta cost of service. For the reasons given above, the Board has excluded the Alberta cost of service item from the budget for Other Expenses attributable to operations outside Alberta.

During the hearing, Westcoast indicated that certain items included in its 1981 budget were also covered by applications made to the Board for approval of capital construction items under Section 49 of the Act. These amounts were included in both applications as it is impossible to be sure that the amounts involved will ultimately qualify for capitalization under the Board's accounting regulations. The amounts included in the Operating and Maintenance Expense budget are:

	<u>Budget Amount</u>	<u>Cost Centre</u>
1. Kotaneelee River Crossing	\$150,000	Northern District
2. Re-panel pump house	\$ 30,000	Fort Nelson Plant
TOTAL	\$180,000	

The Board approved the construction of the Kotaneelee River crossing under Section 49 of the Act, by Order No. XGM-3-81, and the item for re-panelling the pump house is included in

Westcoast's 1981 general construction application which has been filed with the Board. The Board does not consider it appropriate to approve the same project twice, and has thus reduced the Other Expense budget by \$180,000. In the event that these costs are ultimately expensed, the amounts would be shown as overruns of the Operating and Maintenance Expense budget and be submitted for approval as such.

In addition to the Other Expenses of \$29.285 million, Westcoast made a further provision in its overall 1981 Operating and Maintenance Expense budget for Contingencies in the amount of \$2.663 million. In support of the contingency items, Westcoast cited examples of various unplanned expenditures which were experienced in previous years and indicated that these types of expenditures were bound to occur in 1981, although the exact amount, time and location could not be forecast with any certainty. The contingency amounts proposed by the Company, by cost centre, are as follows:

Northern District	\$ 190,000
Southern District	289,000
Fort Nelson Plant	1,834,000
Pine River Plant	350,000

Intervenors did not generally object to the inclusion of contingency items in the approved budgets, but indicated that such expenses should be limited to the types of expenditures identified by the Applicant. More particularly, some Intervenors submitted that the contingency amounts should not be applied to offset overruns of normal budget costs.

The Board has concluded that it would be appropriate to include in the Operating and Maintenance Expense budget for 1981 the proposed amounts for contingency items for the cost centres identified by the Applicant. The contingency amounts for the cost centres identified above will, however, be subject to the following restrictions:

1. Contingency amounts cannot be used to offset overruns on costs provided for in the Other Expenses budget for the cost centre to which the contingency amount applies,
2. Contingency amounts cannot be transferred to offset any costs incurred in any other cost centre, and
3. Any overruns of the contingency amount in any cost centre are to be treated in the same manner as Other Expenses overruns.

For the above reasons the Board finds the budget for Other Expenses in the total amount of \$27.809 million, as allocated to the cost centres shown in Appendix III, and the budget for Contingencies in the amount of \$2.663 million, as allocated to the cost centres shown, to be reasonable for the 1981 budget year.



CHAPTER 3REGULATION OF OPERATING AND MAINTENANCE EXPENSES  
AND ADDITIONS TO THE RATE BASE

The Board indicated in Order No. RH-1-81 and in its memorandum of 28 January 1981 that it wished to examine two aspects of the scheme of regulation established by Order No. TG-5-79 for the regulation of the tolls being charged by Westcoast. These matters were:

1. The control of Operating and Maintenance Expenses, and
2. The addition of new items of plant to the Rate Base.

In its prepared evidence, Westcoast submitted that the variable monthly cost of service continues to be the most appropriate method of regulating the Company's tolls having regard to the economic and operating characteristics of its system. The Company relied upon the reasons given in the Board's September 1979 Reasons for Decision for the continuation of the existing scheme. The Canadian Petroleum Association took the position that Westcoast should be put on a fixed toll basis of regulation because the variable cost of service method is a more complex scheme to administer. The British Columbia Petroleum Corporation ("BCPC") submitted that there were sufficient advantages to the variable cost of service approach to warrant its continued use in the case of Westcoast for the time being. BCPC referred to the reduction of regulatory lag and the fact that the reduced risks to the Company inherent in the scheme should result in a more conservative return on equity.

In the Board's view, some of the evidence and submissions were directed more to the merits of the overall scheme of regulation rather than to the specific matters placed in issue by the Board's Order. The Board has, however, given consideration to that evidence and those submissions to the extent they are relevant to the two questions placed in issue.

(a) Control of Operating and Maintenance Expenses

Several of the Intervenors submitted that some greater degree of regulation of the actual Operating and Maintenance Expenses was required, and suggested that the budgets should be dealt with on a cost centre basis. It was also proposed that a monitoring scheme be established. Under such a scheme, surveillance reports would be filed with the Board on a regular basis, which reports would provide a variety of accounting and statistical information including explanations of any variances in excess of a prescribed percentage on the approved budget amount. It was further suggested that at the end of each budget year there be a hearing by the Board to consider variances between budget estimates and actual costs for the year, irrespective of whether any overruns exist.

Westcoast opposed the proposal for the approval of budgets on a cost centre basis since a budget is at best a reasonable forecast of costs to be incurred in the future and that certain costs are impossible to predict with any accuracy and are beyond the Company's control. For these reasons, Westcoast submitted that it required the flexibility which is available under the existing system by which budgets are approved

for the company's utility operations as a whole. The Applicant also opposed the introduction of monthly or other regular analysis of the budget costs since actual monthly expenses are not incurred on a uniform basis.

Westcoast proposed a procedure for the purpose of eliminating the need for separate proceedings each year in respect of its proposed budgets and any overruns incurred in budget amounts approved for prior periods. The Company proposed that its Operating and Maintenance Expense budget for a calendar year be filed with the Board on 1 December of the prior year, and that its deferred Operating and Maintenance Expenses for the prior year be filed with the Board by the following 15 February. In this way, the budget submission for the ensuing year and the overruns for the prior year could be dealt with by the Board in a single proceeding.

On the treatment of overruns, the BCPC suggested that Westcoast should recover all of its Operating and Maintenance Expenses as they are incurred, and at a later date refund any excess amounts as determined by the Board, together with interest on the amounts refunded. Alternatively, the BCPC submitted that if the present system of deferring overruns is continued, Westcoast should be entitled to recover interest on the overruns at its actual borrowing cost. The evidence presented at the hearing indicated that Westcoast's actual cost of borrowing funds is the prime rate charged by its bankers.

Having considered the evidence and submissions on the control of Operating and Maintenance Expenses, the Board has

concluded that the present system whereby overruns in excess of the approved budget amounts are deferred, should be continued. Westcoast should be permitted to recover its actual carrying cost on any overruns, which cost is the prime rate charged by its bankers. The Board is also of the view that it is desirable to have some greater degree of control on Operating and Maintenance Expense by adopting the cost centre approach proposed by certain of the Intervenors. Commencing with the 1981 budget year, the following procedures will apply for the purpose of approving the budgets, and the deferral of overruns:

1. The Board will approve budgets for Westcoast's utility system on a cost centre basis. The cost centres will be those specified in Appendix III to these Reasons.
2. Within each cost centre, the Board will approve a separate budget for Salaries, Wages and Benefits and for Other Expenses. Where appropriate, the Board will approve a third budget item for Contingencies.
3. Westcoast may automatically recover in its cost of service in the course of the year for which the budget is approved, those expenses incurred in each cost centre up to the amount of the budget for the applicable class of Operating and Maintenance Expenses.
4. Any expenses incurred by the Company in excess of the budgets for each class of expenses in each cost centre are to be deferred together with carrying costs calculated on the month-end balance on the basis of the prime rate charged by Westcoast's bankers for each month.

5. Budget amounts for any class of expense in a cost centre are not to be applied to reduce or offset overruns incurred in any other classes of costs in that cost centre or applied against overruns incurred in any other cost centre.

The Board sees merit in Westcoast's proposal to simplify the existing Operating and Maintenance Expense procedures so that overruns for any budget year are dealt with in the same proceeding as the budget submission for the subsequent year. This procedure has the additional benefit of having actual results from the prior year available to parties when the budgets for the subsequent year are being considered. At this time, the Board is not satisfied that periodic surveillance as proposed by certain Intervenors is necessary. Westcoast is presently providing monthly cost of service reports under the provisions of Order No. TG-5-79.

The Board will amend the procedures established in Order No. TG-5-79 for dealing with Operating and Maintenance Expense budgets and overruns submissions so as to require that:

1. Westcoast shall by 1 December in each year, commencing with 1981, file and serve its Operating and Maintenance Expense budgets for the next succeeding year. The budget submission will set out for each cost centre the budgets for:
  - a. Salaries, wages and benefits
  - b. Other Expenses, and
  - c. Contingencies,

together with an analysis of the budgets similar to that in Exhibit 7 filed in the hearing set down by Order No. RH-1-81.

2. By 28 February of the next succeeding year, commencing with 1982, Westcoast shall file and serve on interested parties an analysis of the variances between the approved budgets and actual expenses incurred for the prior year for each category of expense in each cost centre, together with its application for approval of overruns for each category of expense in each cost centre, if any.

(b) Additions to Rate Base of Amounts in Excess of the Estimated Costs Approved by the Board

On this matter, Westcoast took the position that utility customers should pay, in the tolls charged, the actual costs associated with any pipeline facilities from the time those facilities are brought into operation and provide service to the customers. The Applicant's witness testified that it would be unreasonable to put a limitation on the amount of the actual cost of a project that could be included in the Rate Base, as the cost estimate submitted to the Board at the time a project is approved under Part III of the NEB Act, may be prepared without the benefit of definitive engineering studies and formal bids. The Company indicated that, in today's economic conditions, with rising costs of capital and inflation, it is difficult to make accurate estimates of capital project costs. Owing to these changing circumstances and the possible need for plant redesign, Westcoast believed that it was possible that a final estimate of cost may not be available until a project had been virtually completed.

The Company indicated that if it were limited to including in its monthly Rate Base only the estimated costs of projects, as approved by the Board under Part III of the NEB Act, it would no longer be operating under a variable cost of service scheme. The Applicant submitted that any proposal whereby amounts in excess of original cost estimates are deferred from inclusion in the Rate Base, would result in a higher risk to its shareholders and warrant an increase in its return on common equity. The Company further questioned the need for such controls because over the past ten years, the Applicant has stayed within the estimated costs of its capital projects, with the majority being completed below budgeted costs. The only exceptions have been the two gas processing plants built since 1971.

Westcoast also submitted that, once the Board has decided to authorize construction of facilities that it has determined to be required by the public convenience and necessity, a further tier of public hearings to deal with project costs in excess of original estimates is not justified. Such hearings, the Company argued, would further delay projects and add to their costs. Since the Board already monitors construction costs on a monthly basis and has an opportunity to review those costs between the time a project is approved and leave to open is granted, Westcoast considered any further public review to be unwarranted.

In its direct evidence BCPC outlined two alternative ways the Board could permit the inclusion in Rate Base of amounts

in excess of originally estimated costs:

1. The capital costs over the estimate could be kept out of the Rate Base until approved by the Board. To compensate for the deferral the company would be permitted a recovery on the excess costs, at the time of approval, equal to the return on the Rate Base prevailing at the time of the deferral; or
2. The Board could allow for the automatic inclusion in the Rate Base of the actual cost of the project. The Company would be required, however, to adjust its Rate Base and refund any return realized on any excess costs subsequently disallowed by the Board. Depreciation accounts would also require appropriate adjustments.

Of these two approaches Westcoast indicated that it preferred the second.

With respect to the need for a public hearing to deal with excess project costs, BCPC was of the opinion that the necessity for such a hearing would depend upon the amount of the excess costs and Westcoast's performance in constructing projects within the budgeted estimates. BCPC proposed that the Board should decide whether a hearing is necessary once it has reviewed Westcoast's explanation for the excess costs and the comments of interested parties. It was BCPC's view that the Board should not adopt a general rule requiring a public hearing.

The B.C. Hydro witness testified that reliable project cost estimates should be established prior to construction and that constraints should be identified which would limit approval

of cost escalations subsequent to the start of construction. The witness qualified this position by stating that it would not be equitable to penalize a regulated enterprise such as Westcoast for underestimating the effects of inflation, especially during a lengthy construction period. The witness also believed that the Applicant should not be penalized for unforeseen events beyond its control, which events could include, among others, design changes or unanticipated delays as a result of labour disputes. The witness pointed out, however, that such unforeseen events and the associated risk elements are already reflected in the cost of capital and the allowed return on Rate Base.

The B.C. Hydro witness recommended that approval of excess project costs should only be given after a public hearing. If such costs are not subject to public scrutiny, the witness stated that the excess costs should be absorbed by the Company and its shareholders.

The CPA submitted that the present method of regulation does not provide for adequate control of Westcoast's capital costs and that the adoption of a fixed toll scheme, based upon a cost of service set prospectively, is more appropriate. Under that approach, only a forecast Rate Base would be used for setting tolls. The CPA stated that any amount in excess of the original project cost estimate should be deferred for subsequent consideration by the Board. Alternatively, the Board could review any costs in excess of the estimate at the next rate hearing.

With respect to carrying costs on the amount of any deferred project costs, Westcoast submitted that it would be reasonable that the Company be permitted to earn the current cost of capital on those amounts.

The BCPC stated that, were the Board to require Westcoast to defer inclusion in Rate Base of project costs in excess of original estimates, and then to subsequently approve those excess costs, then it would be appropriate to grant AFUDC on the excess project costs up to the date that these costs are added to Rate Base.

B.C. Hydro suggested that Westcoast should not be allowed any AFUDC on any excess over the original cost estimate of a project. However, it believed that once the Board has determined the excess to be prudent, AFUDC should be allowed.

The CPA stated that any cost which is in excess of the original cost estimate should neither earn a return nor AFUDC until such time as the Board has approved of the resultant higher Rate Base.

Under the existing procedures established by Order No. TG-5-79, Westcoast's average monthly Rate Base is adjusted automatically to include capital expenditures on construction projects approved by the Board under Part III of the NEB Act, and for which leave to open, if required, has been granted. Once an estimate of the cost of a project has been assessed for the purposes of a certificate or other authorization under Part III, there is no further procedure for the consideration of actual project costs before they are included in the Rate Base. The

Board appreciates that cost estimates can change significantly by reason of design changes, inflation and other causes arising after the original estimate is made. Recent experience with gas processing plant costs has convinced the Board that some greater degree of control is required over the addition of any substantial costs in excess of original estimates to the Rate Base. The Board is equally aware that any such controls should involve simple and expeditious procedures while being fair to all concerned parties. In this respect, it is the Board's view that any controls should only apply to excess capital costs which are material.

Accordingly, the Board has concluded that controls on costs in excess of the original cost estimate of a project should apply:

1. in the case of a project authorized by a certificate under Section 44 of the NEB Act, where the excess costs exceed the original estimate, including omissions and contingencies, submitted to the Board by five percent or more and
2. in the case of individual projects authorized by an Order under Section 49 of the NEB Act, where the original estimate for the individual project is \$250,000 or more and that estimate is exceeded by more than \$25,000.

In respect of these projects, where excess costs are incurred by Westcoast as described in items 1 and 2 above, those costs are not to be included in the average monthly Rate Base until approved by the Board. Once leave to open has been granted

for a project or facilities have otherwise been put into service, no AFUDC or carrying charges will be allowed in respect of unapproved costs in excess of the original estimate which are not included in the Rate Base. For the purpose of determining tolls, depreciation on amounts in excess of estimated costs shall not commence until the amounts have been approved for inclusion in Rate Base.

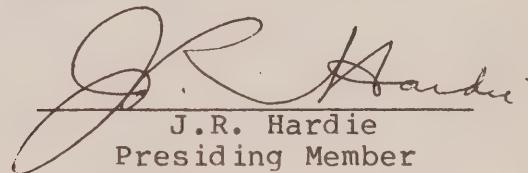
For the purposes of disposition of these excess costs by the Board, Westcoast is to apply to the Board for the approval of those costs for inclusion in the Rate Base. The Application should set out the reasons for the excess costs. That Application should be served on the interested parties identified in paragraph 2 of Schedule A to Order No. TG-5-79. Interested parties will have 15 days to make a submission in writing to the Board, and Westcoast will have a further 10 days to respond to those submissions. Once all the submissions are received, the Board will decide the matter or if it appears desirable, deal with it in a public hearing.

The above procedures for the approval of excess costs of projects for Rate Base purposes does not, in the Board's view necessarily result in any delay in adding these costs, if approved by the Board, to the Average Monthly Rate Base. Westcoast can make application to the Board for the approval of unforeseen project costs as soon as they become apparent without waiting for the costs to be actually incurred or for the construction project to be completed.

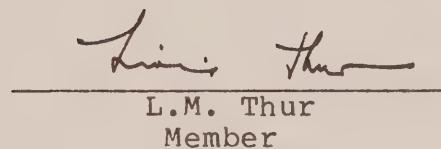
CHAPTER 4  
DISPOSITION

The budgets for Operating and Maintenance Expenses for 1981 by cost centre, as approved by the Board are set forth in Appendix III to these Reasons for Decision. Our decisions with respect to changes in the scheme of regulating the tolls charged by Westcoast as it relates to the control of Operating and Maintenance Expenses and of additions to the Average Monthly Rate Base of plant costs in excess of those originally submitted to the Board, are set out in Chapter 3.

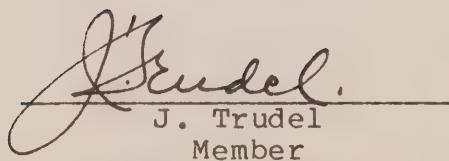
The foregoing, together with Order No. AO-8-TG-5-79 set forth our decision and our Reasons for Decision on those matters.



J.R. Hardie  
Presiding Member



L.M. Thur  
Member



J. Trudel  
Member



NATIONAL ENERGY BOARD



OFFICE NATIONAL DE L'ÉNERGIE

ORDER NO. RH-1-81

IN THE MATTER OF the National Energy Board Act  
and the Regulations made thereunder; and

IN THE MATTER OF an application by Westcoast  
Transmission Company Limited (hereinafter called  
"Westcoast") for approval of certain operating and  
maintenance expenses, pursuant to paragraph 7 of  
Schedule "A" of Order No. TG-5-79; File No.  
1562-W5-3.

B E F O R E the Board on Thursday, the 8th day of January, 1981.

UPON a submission dated 14 October 1980 being filed by  
the Applicant pursuant to paragraph 14 of Schedule "A" to Order  
No. TG-5-79, for approval of its operating and maintenance budget  
for the twelve months ending 31 December 1981;

AND UPON the Board considering it advisable to hold a  
public hearing in respect of the said submission and on certain  
other matters relating to Order No. TG-5-79.

IT IS ORDERED THAT:

1. A public hearing shall be held in the Hearing Room of  
the National Energy Board, Trebla Building, 473 Albert Street, in  
the City of Ottawa, in the Province of Ontario, commencing at  
9:30 a.m. local time on the 17th day of February 1981 for the  
purpose of hearing evidence on the submission dated 14 October  
1980 as well as certain other matters relating to Order No.  
TG-5-79. Such proceedings will be conducted in either of the two  
official languages, and simultaneous interpretation will be  
provided should a party to the proceedings request such  
facilities in its intervention.

2. Evidence and submissions shall be heard in two Phases to be heard successively:

- In Phase I the Board will examine the operating and maintenance submission of 14 October 1980;
- In Phase II the Board will examine the method of regulation established pursuant to Order No. TG-5-79 respecting:
  - (a) the approval of Operating and Maintenance Expenses
  - (b) the addition of new items of plant in the calculation of the average monthly rate base.

3. The Applicant shall, if it has not already done so, forthwith, serve a true copy of the Applications, and a true copy of this Order, upon all the Applicant's customers, the Attorneys General of the Provinces of British Columbia and Alberta, the British Columbia Energy Commission, British Columbia Hydro and Power Authority, British Columbia Petroleum Corporation, the Canadian Gas Association, the Canadian Petroleum Association, Esso Resources Canada Limited, the Independent Petroleum Association of Canada and Inland Natural Gas Co. Ltd., and, as soon as possible, upon such other persons who intervened in the hearing held pursuant to Order No. RH-4-80.

4. Notice of the said hearing in the form prescribed by the Board as set forth in Appendix I attached to and forming part of this Order shall be published on or before the 29th day of January, 1981, in one issue of each of "The Vancouver Sun" and

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RH-1-81

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"The Vancouver Province" in the City of Vancouver, "The Colonist" in the City of Victoria, "The Kamloops Sentinel" in the City of Kamloops, all in the Province of British Columbia; "The Herald" in the City of Calgary and "The Journal" in the City of Edmonton, both in the Province of Alberta; "The Globe and Mail" and "The Financial Post" in the City of Toronto, "The Citizen" and "Le Droit" in the City of Ottawa, all in the Province of Ontario; the "Financial Times of Canada" in the City of Montreal, in the Province of Quebec; and, as soon as may be possible, in the Canada Gazette.

5. Any person intending to oppose or intervene in the said Applications shall, on or before the 4th day of February, 1981, file with the Secretary of the Board thirty (30) copies of a written statement containing its reply or submission, together with any supporting information, particulars or documents, which shall include a concise statement of the facts from which the nature of the respondent's or intervenor's interest in the proceedings may be determined, which may admit or deny any or all of the facts alleged in the Applications, which shall be endorsed with the name and address of the respondent or intervenor or his solicitor to whom communications may be sent and which shall state the official language in which the respondent or intervenor wishes to be heard. Any respondent or intervenor shall, on or before the 4th day of February, 1981, serve three (3) copies of

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his reply or submission and supporting information, particulars or documents upon the Applicant and one (1) copy each upon the Attorneys General of the Provinces of British Columbia and Alberta, the British Columbia Energy Commission, British Columbia Hydro and Power Authority, the British Columbia Petroleum Corporation, the Canadian Gas Association, the Canadian Petroleum Association, Esso Resources Canada Limited, the Independent Petroleum Association of Canada, and Inland Natural Gas Co. Ltd.

6. The Applicant shall prepare its direct evidence written in question and answer form with lines numbered (hereinafter called "written direct evidence") for each of its witnesses and shall,

- (a) on or before the 10th day of February, 1981, file thirty (30) copies thereof with the Board and serve one copy of the same upon each person specified in Paragraph 3 of this Order, and
- (b) as soon as possible, serve one copy of the same upon any other party who has intervened pursuant to paragraph 5 of this Order.

7. Any party who has intervened pursuant to paragraph 5 hereof and who wishes to present direct evidence in the Hearing, shall prepare written direct evidence, and shall, on or before the 16th day of February, 1981, file thirty (30) copies thereof

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with the Board and serve one (1) copy of the same upon the Applicant and each other party who has intervened pursuant to paragraph 4 hereof, a list of which intervenors will be available from the Board on the 5th day of February, 1981.

8. Any interested party may examine a copy of the submission filed at the office of:

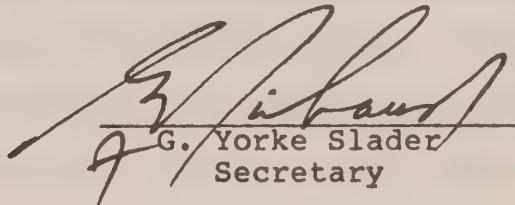
National Energy Board  
Trebla Building  
473 Albert Street  
Ottawa, Ontario.  
K1A 0E5

or at the offices of the Applicant at the following address:

Westcoast Transmission Company Limited  
1333 West Georgia Street  
Vancouver, British Columbia.  
V6E 3K9

DATED at the City of Ottawa, in the Province of Ontario, this 8th day of January, 1981.

NATIONAL ENERGY BOARD



G. Yorke Slader  
Secretary

RH-1-81

APPENDIX I  
to ORDER RH-1-81

NATIONAL ENERGY BOARD

NOTICE OF HEARING

TAKE NOTICE THAT Westcoast Transmission Company Limited, hereinafter called "the Applicant", has filed a submission dated 14 October 1980 for approval of its operating and maintenance budget for the twelve months ending 31 December 1981, pursuant to paragraph 14, Schedule "A" of Order No. TG-5-79.

THE BOARD HAS ORDERED THAT

1. A public hearing shall be held in the Hearing Room of the National Energy Board, Trebla Building, 473 Albert Street, in Ottawa, Ontario, commencing at 9:30 a.m. local time on 17 February 1981 to hear evidence on the submission dated 14 October 1980 as well as certain other matters relating to Order No. TG-5-79. Such proceedings will be conducted in either of the two official languages, and simultaneous interpretation will be provided should a party to the proceedings request such facilities in its intervention.

2. Evidence and submissions shall be heard in two Phases to be heard successively:

- In Phase I the Board will examine the operating and maintenance submission of 14 October 1980;
- In Phase II the Board will examine the method of regulation established pursuant to Order No. TG-5-79 respecting:

- 2 -

- (a) the approval of Operating and Maintenance Expenses
- (b) the addition of new items of plant in the calculation of the average monthly rate base.

3. Any person intending to oppose or intervene in the said Applications shall, on or before the 4th day of February, 1981, file with the Secretary of the Board thirty (30) copies of a written statement containing its reply or submission, together with any supporting information, particulars or documents, which shall include a concise statement of the facts from which the nature of the respondent's or intervenor's interest in the proceedings may be determined, which may admit or deny any or all of the facts alleged in the Application, which shall be endorsed with the name and address of the respondent or intervenor or his solicitor to whom communications may be sent and which shall state the official language in which the respondent or intervenor wishes to be heard. Any respondent or intervenor shall, on or before the 4th day of February, 1981, serve three (3) copies of his reply or submission and supporting information, particulars or documents upon the Applicant and one (1) copy each upon the Attorneys General of the Provinces of British Columbia and Alberta, the British Columbia Energy Commission, British Columbia Hydro and Power Authority, the British Columbia Petroleum Corporation, the Canadian Gas Association, the Canadian Petroleum Association, Esso Resources Canada Limited, the Independent Petroleum Association of Canada, and Inland Natural Gas Co. Ltd.

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4. Any party who has intervened pursuant to paragraph 3 hereof and who wishes to present direct evidence in the Hearing, shall prepare written direct evidence, and shall, on or before 16 February, 1981, file thirty (30) copies thereof with the Board and serve one (1) copy of the same upon the Applicant and each other party who has intervened pursuant to paragraph 3 hereof, a list of which intervenors will be available from the Board on 5 February, 1981.

5. Any interested party may examine a copy of the submission filed at the office of:

National Energy Board  
Trebla Building  
473 Albert Street  
Ottawa, Ontario.  
K1A 0E5

or at the offices of the Applicant at the following address:

Westcoast Transmission Company Limited  
1333 West Georgia Street  
Vancouver, British Columbia.  
V6E 3K9

G. Yorke Slader  
Secretary  
NATIONAL ENERGY BOARD

Dated at Ottawa, Canada  
8 January 1981

## NATIONAL ENERGY BOARD



## OFFICE NATIONAL DE L'ÉNERGIE

ORDER NO. AO-1-RH-1-81

IN THE MATTER OF the National Energy Board Act and the Regulations made thereunder; and

IN THE MATTER OF an application by Westcoast Transmission Company Limited (hereinafter called "Westcoast") for approval of certain operating and maintenance expenses, pursuant to paragraph 7 of Schedule "A" of Order No. TG-5-79; File No. 1562-W5-3.

B E F O R E the Board on Friday, the 6th day of February, 1981.

UPON an application by British Columbia Petroleum Corporation, British Columbia Hydro and Power Authority, and the Canadian Petroleum Association for the adjournment of the hearing set down pursuant to Order No. RH-1-81;

AND UPON it appearing that additional time is required for the filing of interventions pursuant to the said order;

1. IT IS ORDERED THAT Order No. RH-1-81 be and the same is hereby changed, altered, and varied by revoking paragraph 1 thereof and substituting therefor the following:

"1. A public hearing shall be held in the Hearing Room of the National Energy Board, Trebla Building, 473 Albert Street, in the City of Ottawa, in the Province of Ontario, commencing at 9:30 a.m. local time on the 6th day of April, 1981, for the purpose of hearing evidence on the submission dated 14 October

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1980 as well as certain other matters relating to Order No. TG-5-79. Such proceedings will be conducted in either of the two official languages, and simultaneous interpretation will be provided should a party to the proceedings request such facilities in its intervention."

2. AND IT IS FURTHER ORDERED THAT Order No. RH-1-81 be and the same is hereby changed, altered, and varied by revoking paragraphs 5 to 7 thereof and substituting therefor the following:

"5. Any person intending to oppose or intervene in the said Applications shall, on or before the 21st day of February, 1981, file with the Secretary of the Board thirty (30) copies of a written statement containing its reply or submission, together with any supporting information, particulars, or documents, which shall include a concise statement of the facts from which the nature of the respondent's or intervenor's interest in the proceedings may be determined, which may admit or deny any or all of the facts alleged in the Applications, which shall be endorsed with the name and address of the

- 3 -

respondent or intervenor or his solicitor to whom communications may be sent and which shall state the official language in which the respondent or intervenor wishes to be heard. Any respondent or intervenor shall, on or before the 21st day of February, 1981, serve three (3) copies of his reply or submission and supporting information, particulars or documents upon the Applicant and one (1) copy each upon the Attorneys General of the Provinces of British Columbia and Alberta, the British Columbia Energy Commission, British Columbia Hydro and Power Authority, the British Columbia Petroleum Corporation, the Canadian Gas Association, the Canadian Petroleum Association, Esso Resources Canada Limited, the Independent Petroleum Association of Canada, and Inland Natural Gas Co. Ltd.

6. The Applicant shall prepare its direct evidence written in question and answer form with lines numbered (hereinafter called "written direct evidence") for each of its witnesses and shall,

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- (a) on or before the 7th day of March, 1981, file thirty (30) copies thereof with the Board and serve one (1) copy of the same upon each person specified in paragraph 3 of this Order, and
- (b) as soon as possible, serve one (1) copy of the same upon any other party who has intervened pursuant to paragraph 5 of this Order.

7. Any party who has intervened pursuant to paragraph 5 hereof and who wishes to present direct evidence in the Hearing, shall prepare written direct evidence, and shall, on or before the 25th day of March, 1981, file thirty (30) copies thereof with the Board and serve one (1) copy of the same upon the Applicant and each other party who has intervened pursuant to paragraph 5 hereof, a list of which intervenors will be available from the Board on the 24th day of February, 1981."

NATIONAL ENERGY BOARD

*G. Yorke Slader.*

G. Yorke Slader  
Secretary



File No. 1562-W5-3

January 28, 1981

MEMORANDUM TO ALL PARTIES

IN THE MATTER OF an application  
by Westcoast Transmission Company  
Limited for the approval of  
certain Operating and Maintenance  
Expenses, pursuant to paragraph 7  
of Schedule A to Order No. TG-5-79

By Order No. RH-1-81, dated January 8, 1981, the Board set down for public hearing the above application by Westcoast Transmission Company Limited ("Westcoast") respecting its proposed Operating and Maintenance Expense Budget for the year ending December 31, 1981. As indicated in that Order, the Board wishes, in Phase II of the hearing, to examine the scheme of regulation established by Order No. TG-5-79, with respect to:

1. the approval of Operating and Maintenance Expenses;
2. the addition of new items of plant in the calculation of the average monthly rate base.

Without attempting to limit the scope of the above subjects, the Board has requested that parties give consideration to the following issues in relation to those subjects:

Control of Operating  
and Maintenance Expenses

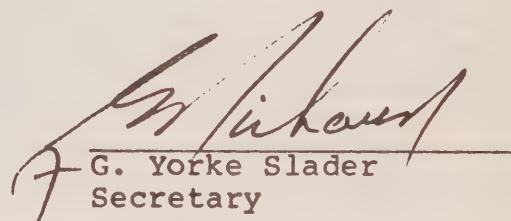
1. Is the present method of controlling these expenses adequate and, if not, what alternative methods should be employed.
2. Should Operating and Maintenance Expenses be limited to the amounts specified in the approved budgets, without provision for the deferral of overruns.

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3. Should carrying charges be allowed on deferred Operating and Maintenance Expenses and, if so, at what rate.

Control of Rate Base

1. Should there be a limitation on the ability of a company to automatically add to its rate base amounts in excess of the estimated costs submitted at the time a project is approved under Part III of the National Energy Board Act.
2. Should amounts in excess of the original estimate of the cost of a project be deferred. Should public hearings be held to deal with project costs in excess of the original estimates.
3. Should AFUDC or other allowances be granted on project costs in excess of the original estimates, during the period subsequent to the expenditure and prior to any approval to include such costs in the rate base.



G. Yorke Slader  
Secretary

TO: Westcoast Transmission  
Company Limited

Interested Parties pursuant  
to Order No. TG-5-79

Parties of Record pursuant  
to Order No. RH-4-80

WESTCOAST TRANSMISSION COMPANY LIMITED

SUMMARY OF APPROVED OPERATING AND MAINTENANCE  
EXPENSE BUDGET

TWELVE MONTHS ENDING DECEMBER 31, 1981  
(\$000)

<u>Cost Centre</u>	<u>Salaries Wages and Benefits</u>	<u>Other Expenses</u>	<u>Contingent Items</u>	<u>Total Operating and Maintenance</u>
Northern District	5,914	5,431	190	11,535
Southern District	4,668	3,034	289	7,991
Fort Nelson Plant	5,658	9,374	1,834	16,866
McMahon Plant	-	1,876	-	1,876
Taylor Sulphur Plant	501	158	-	659
Pine River Plant	1,622	1,029	350	3,001
Other Cost Centres	412	849	-	1,261
Vancouver Departmental	6,907	1,482	-	8,389
General Administrative	-	4,576	-	4,576
<b>TOTALS</b>	<b><u>25,682</u></b>	<b><u>27,809</u></b>	<b><u>2,663</u></b>	<b><u>56,154</u></b>



ORDER NO. AO-8-TG-5-79

IN THE MATTER OF the National Energy Board Act and the Regulations made thereunder; and

IN THE MATTER OF a submission by Westcoast Transmission Company Limited (hereinafter called "Westcoast") respecting its Operating and Maintenance Expense Budget for the twelve month period ending on the 31st day of December, 1981, pursuant to Order No. TG-5-79, filed with the Board under File No. 1562-W5-3.

## BEFORE:

J.R. Hardie	)	
	)	On Tuesday, the 19th
L.M. Thur	)	day of May, 1981.
	)	
J. Trudel	)	

UPON the Board having by Order No. TG-5-79, as amended, prescribed the tolls Westcoast may charge in respect of natural gas transmitted by it through its pipeline and sold by it in each month during the term of the said Order;

AND UPON Westcoast having, by a submission dated the 14th day of October, 1980, as amended by a revised submission dated the 5th day of February, 1981, submitted its forecast of Operating and Maintenance Expenses for the twelve month period ending on the 31st day of December, 1981, pursuant to paragraph 14 of Schedule A to Order No. TG-5-79;

- 2 -

AND UPON the Board having by Order No. RH-1-81, as amended, set down for public hearing the said submission by Westcoast, and directed that it wished to examine two aspects of the scheme established by Order No. TG-5-79 for the regulation of the tolls being charged by Westcoast, being

1. The control of Operating and Maintenance Expenses, and
2. The addition of new items of plant to the Rate Base;

AND UPON the Board having, pursuant to Order No. RH-1-81, as amended, heard the evidence and argument of all parties respecting the said submission by Westcoast and the said two aspects of the scheme of regulation, at a public hearing which commenced on the 6th day of April, 1981;

1. IT IS ORDERED THAT Order No. TG-5-79 be and the same is hereby changed, altered and varied,
  - (a) by revoking paragraph 8.2 thereof and substituting therefor the following:

"8.2 Westcoast shall not include in the tolls to be charged during the period commencing on the 1st day of January, 1981, and ending on the 31st day of December, 1981, any amount on account of

- (a) salaries, wages and benefits included in Operating and Maintenance Expenses,

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(b) Operating and Maintenance Expenses other than salaries, wages and benefits, and

(c) Contingencies

for each cost centre specified in Schedule G to this Order, which would result in the amounts for those categories of expenses being recovered in excess of the approved budgets for those categories of expenses for each cost centre as specified in Schedule G to this Order."

(b) by revoking Schedule G thereof and substituting therefor the attached Schedule G.

2. AND IT IS FURTHER ORDERED THAT Order No. TG-5-79 be and the same is hereby changed, altered and varied by adding thereto, immediately after paragraph 9 thereof, the following paragraph:

"9.1 Where Westcoast incurs expenses in respect of the categories of expenses referred to in paragraph 8.2 which are in excess of the amounts specified for those categories for each cost centre as set out in Schedule G to this Order, Westcoast shall include those excess expenses in Account 179 - Other Deferred Debits - together with carrying charges on the month-end balance of the account at 1/12th of the prime interest rate charged by Westcoast's bankers for each such month."

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3. AND IT IS FURTHER ORDERED THAT Order No. TG-5-79 be and the same is hereby changed, altered and varied by revoking paragraph 14 of Schedule A to the said Order, and substituting therefor the following:

"14. With respect to its Operating and Maintenance Expenses, Westcoast shall

(a) by the 1st day of December in each year, commencing with 1981, file with the Board and serve on interested parties its Operating and Maintenance Expense budget submission for the next succeeding year, setting out for each cost centre specified in Schedule G, its budgets for

- (i) salaries, wages and benefits
- (ii) other expenses, and
- (iii) contingencies,

together with an analysis of those budgets similar to that in Exhibit 7 filed in the hearing held pursuant to Order No. RH-1-81, and

(b) by the 28th day of February in each year, commencing with 1982, file with the Board and serve on interested parties an analysis of the variances between the approved budgets and actual expenses incurred for the prior year for each category of expense in each cost centre specified in Schedule G, together with any application for approval of overruns for each category of expense in each cost centre specified in Schedule G.

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14.1 With respect to the Operating and Maintenance Expense submissions referred to in paragraph 14, interested parties shall, within 15 days of being served with any submission, inform the Board whether they wish to make representations to the Board respecting that submission."

4. AND IT IS FURTHER ORDERED THAT Order No. TG-5-79 be and the same is hereby changed, altered and varied  
(a) by revoking paragraphs 1(c)(iii) to (v) of Schedule B to the said Order and substituting therefor the following:

"(iii) Gas Plant in Service

Subject to paragraph 1(d), Gas Plant in Service shall be adjusted to include capital expenditures on construction approved by the Board under Part III of the National Energy Board Act and for which leave to open, if required, has been granted, but shall exclude any amount relating to such plant which has been the subject of an extraordinary retirement.

(iv) Accumulated Depreciation

Subject to paragraph 1(e), Accumulated Depreciation shall be adjusted for depreciation expense included in the cost of service, but shall exclude any amount relating to Gas Plant in Service which has been the subject of an extraordinary retirement.

(v) Gas Plant Held for Future Use

Subject to paragraph 1(d), additions to Gas Plant Held for Future Use shall meet the requirements of Section 102(1) of the Gas Pipe Line Uniform Accounting Regulations. Commencing 1 November 1979, the amount remaining from the 31 December 1978 balance shall be amortized to cost of service over five years."

(b) by adding to Schedule B thereof, immediately after paragraph 1(c), the following paragraphs:

"(d) With respect to Gas Plant in Service and Gas Plant Held for Future Use referred to in subparagraphs 1(c)(iii) and (v) respectively, Westcoast shall not include in those amounts for the purpose of determining its Average Monthly Rate Base for any month after June 1981, any costs

(i) in respect of a project authorized by a certificate under section 44 of the National Energy Board Act, which exceed the original estimate including omissions and contingencies, submitted to the Board by five percent or more, and

(ii) in respect of a project authorized by an Order under Section 49 of the National Energy Board Act and having an original estimated cost of \$250,000 or more, which exceed the original estimate by more than \$25,000,

unless such costs have been approved by the Board.

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(e) Where leave to open has been granted for a project described in paragraph (d) or such facilities have otherwise been placed in service, no AFUDC or other carrying charges and no depreciation shall be charged in respect of any costs of such projects in excess of the original estimates submitted to the Board until such costs have been approved for inclusion in the Average Monthly Rate Base pursuant to paragraph (c)."

5. AND IT IS FURTHER ORDERED THAT Order No. TG-5-79 be and the same is hereby changed, altered and varied by revoking paragraph 2(b)(iii) of Schedule B thereof and substituting therefor the following:

"(iii) Depreciation

Subject to paragraph 1(e), depreciation shall be based on those rates set out in Schedule D to this Order."

6. AND IT IS FURTHER ORDERED THAT Order No. TG-5-79 be and the same is hereby changed, altered and varied by adding to Schedule A thereof, immediately after paragraph 15, the following paragraph:

"Approval of Rate Base Additions

16. Where Westcoast incurs project costs which require the approval of the Board under paragraph 1(d) of Schedule B for Average Monthly Rate Base purposes, Westcoast shall file with the Board and

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serve on interested parties an application for approval of those costs, which application shall set forth the reasons why such costs were incurred. Interested parties shall within 15 days of being served with an application, file with the Board and serve on Westcoast, their submissions with respect to such project costs. Westcoast may, within 10 days of being served with the submissions of any interested party, file a reply thereto with the Board."

NATIONAL ENERGY BOARD

*G. Yorke Slader*

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G. Yorke Slader,  
Secretary

SCHEDULE G

Approved Budgets for Westcoast  
Transmission Company Limited by  
Cost Centre for the Twelve Months  
commencing on 1 January, 1981 and  
ending on 31 December 1981

The approved budgets for salaries, wages and benefits  
for Other Expenses and for Contingencies are:

<u>Cost Centre</u>	<u>Salaries Wages and Benefits</u>	<u>Other Expenses</u>	<u>Contingent Items</u>	<u>Total Operating and Maintenance</u>
Northern District	5,914	5,431	190	11,535
Southern District	4,668	3,034	289	7,991
Fort Nelson Plant	5,658	9,374	1,834	16,866
McMahon Plant	-	1,876	-	1,876
Taylor Sulphur Plant	501	158	-	659
Pine River Plant	1,622	1,029	350	3,001
Other Cost Centres	412	849	-	1,261
Vancouver Departmental	6,907	1,482	-	8,389
General Administrative	-	4,576	-	4,576
<b>TOTALS</b>	<b>25,682</b>	<b>27,809</b>	<b>2,663</b>	<b>56,154</b>





